

1. Match the key terms with their correct definitions or explanations in the table below. One has been done for you.

A Effective demand

B Joint demand

C Excess demand

D Excess supply

E Substitutes

F Market equilibrium

G Complement

H Market supply

I Price elastic supply

J Price inelastic demand

K Supply

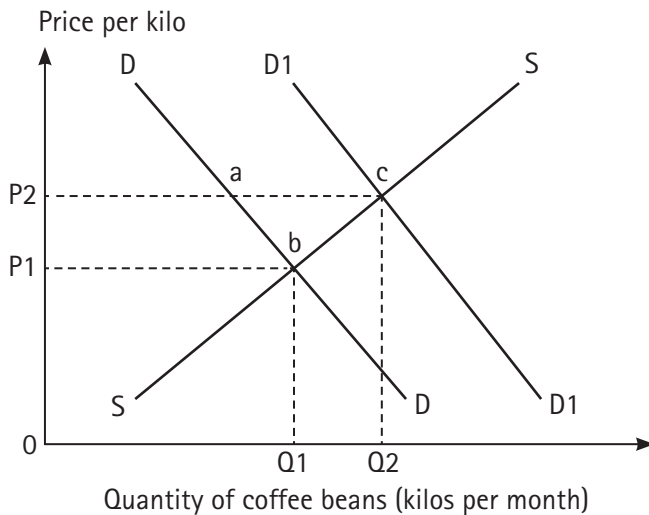
L Market demand

M Price elasticity of demand

N Price elasticity of supply

Definition or explanation	Key term
An economic situation in which a market is in disequilibrium because product supply exceeds demand for it. As a result, there will be pressure on the product price to fall	D
The sum of individual consumer demands for a given product	
Products that compete to satisfy the same consumer demand, such as butter and margarine or tea and coffee	
Demand is relatively price insensitive. A small percentage change in the price of the product will result in a smaller percentage change in the quantity demanded	
The responsiveness of the supply of a product to a change in its price	
The willingness and ability of consumers to buy a product	
An economic situation in which a market is in disequilibrium because product demand exceeds its supply. There will be upward pressure on the product price	
The sum of supply decisions by all the firms producing a given product	
When the demand for two or more products is related because they are consumed together, for example razors and razor blades or cartridges	
Supply is highly price sensitive. A small percentage change in the price of a product will cause a far greater percentage change in the quantity supplied	
An economic situation in which the market demand for a product is exactly equal to its market supply. As there is neither a surplus or shortage of the product, the market price tends to be stable in this situation	
A good or service that is in joint demand with another, for example, cars and petrol	
The desire and ability of producers to make and sell a given product	
The responsiveness of consumer demand for a product to a change in its price	

2. The following diagram shows the impact of a rise in demand for coffee beans, i.e. market conditions have changed, shown by the movement between a number of points marked on the diagram. Match the labels to the movements listed in the table below. One has been done for you.



A rise in the market price

An extension of demand

An increase in the equilibrium quantity traded

An extension of supply

A rise in market demand

Change in market conditions	Label giving the correct description
a to b	
a to c	
b to c	
P1 to P2	
Q1 to Q2	

3. Suggest five reasons why the market demand for coffee beans may rise.

- i) .....
- ii) .....
- iii) .....
- iv) .....
- v) .....

4. The Association of Coffee Bean Suppliers has observed that reducing the price of a kilo of coffee beans from \$20 to \$18 increased the quantity sold from 1,000 kilos per week to 1,200 kilos per week.

- i) Use this information to calculate the price elasticity of demand for coffee beans.

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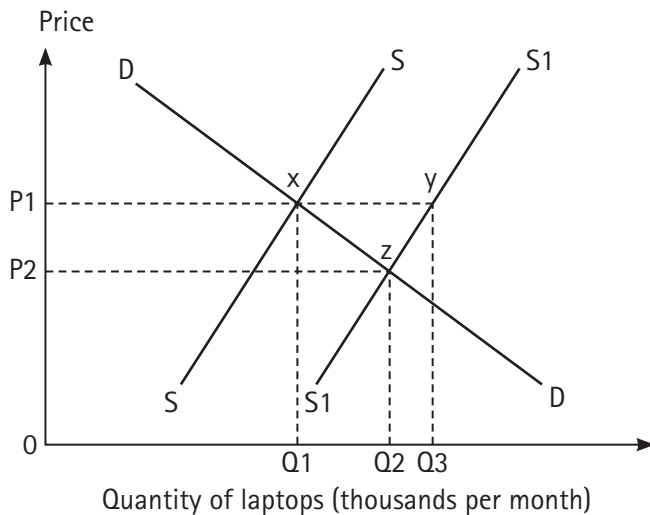
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- ii) Which of the following statements is correct?

The demand for coffee beans is relatively price elastic. The increase in the quantity demanded per week is proportionally greater than the 10% cut in price. As a result, total revenue from the sale of coffee beans has increased.

The demand for coffee beans is relatively price inelastic. The increase in the quantity demanded per week is proportionally less than the 10% cut in price. As a result, total revenue from the sale of coffee beans has fallen.

5. The following diagram shows the impact of a rise in the market supply of laptop computers, i.e. market conditions have changed, shown by the movement between a number of points marked on the diagram. Match the labels to the movements listed in the table below.



A fall in the market price

An extension of demand

A rise in the equilibrium quantity traded

A contraction of supply

A rise in market supply

Change in market conditions	Label giving the correct description
x to y	
y to z	
x to z	
P1 to P2	
Q1 to Q2	

6. Suggest three reasons why the market supply of laptop computers may rise.

- i) .....
- ii) .....
- iii) .....
- .....

7. Apex Computers is a manufacturer of laptop computers. Its laptops currently sell for \$500 each. The owners of Apex have stated that if the price was to rise to \$550, they could increase production immediately from 80 laptops a week to 100 using their existing resources. If the market price stays at \$550, the company would expand its factory and install additional equipment over the next six months allowing it to increase production from 80 to 120 laptops per week.

- i) Calculate the initial price elasticity of supply at Apex Computers.

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- ii) Calculate what the firm's price elasticity of supply could be after six months.

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iii) Explain why the price elasticity of supply at Apex could be different after six months.

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